JAMES L. McINTIRE
State Treasurer

State of Washington
Office of the Treasurer

January 12, 2010

Washington State Transportation Commission Member
PO Box 47308
Olympia, WA 98504-7308

Dear Commission Members,

Last month, the Transportation Commission asked my office for a financial analysis of appropriate tolls for the Tacoma Narrows Bridge.

As summarized in the attached editorial for the Tacoma News Tribune, our office recommended a tolling policy based on coverage requirements. More specifically, a two-pronged recommendation that (1) tolls should be set to generate net revenues equal to at least 110% of debt service, and (2) to generate revenues sufficient to cover 100% of all expected expenditures in a given year. Our approach focuses on coverage requirements rather than reserves because of the rapid acceleration in debt service over the life of the bonds.

The Tribune editorial was an opportunity to provide transparency for the public and explain the rationale behind my recommendations. Since the letter was published on January 8, I have met with state and community leaders and listened to their concerns. With that feedback in mind, I am writing to suggest an option that could help the Commission reach the recommended coverage levels while also easing the burden on a community that is experiencing the financial strains of the current recession.

While I stand behind our 110 percent recommendation, I would also support a transition period for reaching these targets. More specifically, we would support tolls which provide a coverage ratio of 105% in FY2011 and attain the 110% target the following year.

The Commission originally addressed the need for a cushion by establishing a fixed dollar reserve. A transition period would smooth the shift to the new, dynamic coverage requirements that I have recommended.

Sincerely,

James L. McIntire
Washington State Treasurer

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VIEWPOINT: Narrows tolls must go up, but will be spent on bridge

JAMES MCINTIRE
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Many South Sound commuters already know that crossing the Tacoma Narrows Bridge will likely cost more by this summer. The Legislature and the previous state treasurer financed the Narrows Bridge with bonds that are scheduled to be repaid in relatively small increments at first, then gradually increase through 2030. It was a good-faith attempt to mitigate the impact by allowing lower initial toll rates.

Though I did not set up this structure, now that it's in place, it cannot be changed without violating constitutionally protected contracts. That is why the state Transportation Commission – the toll-setting authority – will need to raise tolls to cover upcoming increases in debt service costs. To be clear, toll revenue from the Narrows Bridge cannot and will not be used for other facilities or projects.

Last month, the Transportation Commission asked my office for a financial analysis of appropriate tolls for the Tacoma Narrows Bridge. The commission is legally required to set toll rates in an amount sufficient to pay the debt, maintenance, preservation and operation of the bridge. But the definition of "sufficient" is unclear.

This is how the financial markets define "sufficient":

Rates must change to produce enough money to pay the upcoming debt service. The tolls needed to cover these payments are directly linked to the size of these annual debt service costs. Annual payments of principal and interest for the Narrows Bridge total $35 million for the current fiscal year. They will double in seven years, then rise to $87 million near the final maturity of the bonds.

What is the right toll rate? Given the unique financing for the Narrows Bridge, toll revenue should provide for at least 110 percent of each year's debt service so that annual costs are covered and a prudent cushion is available for the inevitable uncertainties in traffic, weather, accident and expense projections. This cushion is not intended to provide revenue for other projects or services. It is simply a way to allow for the fluctuations in traffic volumes that have a direct impact on the total revenue produced.

The 110 percent coverage level is slightly higher than assumptions used in 2007 when the last bonds were issued. These assumptions also included toll increases that have not occurred. Today's coverage ratio is only 101 percent. With little or no toll increase this year, the coverage ratio would fall to 69 percent. Still, 110 percent coverage is significantly less than the 175 percent to 200 percent required by the financial markets for nearly all tolled facilities nationwide.

This measure is also significantly lower than the ratios assumed for future tolled facilities in the state. For example, tolling policy for the Highway 520 bridge across Lake Washington assumes 125 percent coverage. We're able to keep this coverage ratio comparatively low because, unlike most other states, the toll bonds are backed by both the gas tax and the full faith and credit of the state.

The Narrows Bridge project is a success story for all involved. The project was delivered $114 million under budget and has sharply reduced commute times for thousands of families in South Puget Sound. All tolls collected on the Narrows Bridge are retained for exclusive use at the Tacoma Narrows Bridge and are not to be used for other facilities. If traffic volumes exceed projections or if operating expenses rise more slowly than anticipated, surplus funds can and will be used to repay the Narrows Bridge debt.

The principles and coverage ratios I have outlined maintain our state's strong financial standing and keep borrowing costs low. They ensure the public's money is used for the actual construction, maintenance and operation of major roadways – not interest payments to investors.

James McIntire is the state treasurer.

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